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HISTORICAL NOTES RE: BUDGET AND FINANCE ACTIVITIES

CIA and Predecessor Organizations

Period: 20 September 1945 - 28 January 1952

1. SSU & CIG Created - Period: September 20, 1945 - June 30, 1946

a. By Executive Order dated 20 September 1945, the President of the United States abolished the Office of Strategic Services by transferring part of its functions to the Department of State and the remaining functions to the Strategic Services Unit (SSU) War Department. In a memorandum dated 27 September 1945, the Secretary of War, Robert P. Patterson, appointed Brigadier General John Magruder, USA, as Director of Strategic Services. In a memorandum to the Director of Strategic Services Unit, dated 26 September 1945, the Assistant Secretary of War, John J. McCloy, gave instructions for the transfer of OSS personnel and activities to SSU. This memo contained the following instructions:

"I am particularly anxious that you keep the Budget, Fiscal, and Accounting Officers of the War Department fully advised of the activities of the Unit and arrange to obtain their assistance and guidance to the fullest practicable extent.I am particularly anxious that my office be kept informed as to proposals for the disposition of particular substantial operations, facilities or assets of the present OSS organization.I desire that the status of the assets to be taken over by the War Department as of 1 October 1945 be carefully checked

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by the proper Budget and Fiscal officers of the War Department, to the extent that they deem necessary, and as you know, instructions for such check, by inventory and otherwise, have been given."

b. Certain unobligated funds remaining in the OSS appropriation were transferred to the War Department and the SSU activities were financed from War Department allotments for the remainder of the Fiscal Year 1946. A regular Army Disbursing Officer was assigned to SSU and all regular disbursements for SSU activities were made by that officer. [REDACTED]

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[REDACTED]

c. The Central Intelligence Group was activated by a directive issued by the President of the U. S. on 22 January 1946. This Directive, which was issued to the Secretaries of the State, War, and Navy Departments, was occasioned by a well-recognized need for a coordinated over-all intelligence activity. Admiral Sidney W. Souers was appointed by the President as Director of Central Intelligence, subject to such basic instructions as might be issued by the National Intelligence Authority. The Central Intelligence Group was initially operated with a relatively small staff on the basis of contributions of personnel, facilities, and funds from the Departments of State, War, and Navy in accordance with the President's Directive of 22 January 1946. Although the services and

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facilities of SSU were utilized by CIG, it was administered as a separate entity. It was soon recognized by the CIG that, in order to accomplish the desired objectives in connection with the coordination of intelligence for national security purposes, it would be necessary to provide for unified central operations on an augmented basis, and to gain direct control over the personnel, facilities, and funds required to accomplish centralized intelligence functions.

d. During the spring months of 1946, exploratory steps were taken to provide for the establishment of authorities and facilities whereby the Central Intelligence Group's intelligence operating staffs and offices would be centrally administered, financed, and serviced to the extent that it would not be necessary to depend on contributions from the State, War, and Navy Departments on a day-to-day basis.

2. CIG Evolves as an Operating and Administrative Entity - FY 1947

a. During the early part of FY 1947, the SSU continued to remain a separate administrative entity and the CIG continued to draw financial support on the basis of contributions made primarily by the War Department through arrangements previously made and approved by the NIA. The funds for support of CIG were actually made available to the SSU to facilitate giving more direct support to the CIG and NIA.

b. In a letter dated 30 July 1946 from the NIA to the Secretary of the Treasury and the Comptroller General, a request was made for the establishment of a working fund to administer funds made available by the State, War, and Navy Departments to the Central Intelligence

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Chap. IV/15 (2)
Letter from NDA to Sec.
of Treasury & the Comptroller
General. 30 July 1946

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Group. In this letter the NIA stated:

"Upon the establishment of such a working fund, it is proposed, in addition to committing such funds of our respective Departments for administration by the Central Intelligence Group, to delegate to the Director of Central Intelligence or his authorized representatives the necessary authorities for the administration of those funds, for personnel actions, for procurement of equipment and supplies, and for the certification of vouchers."

c. Following approval for the establishment of a working fund, the NIA, in a letter dated 5 September 1946 to the Comptroller General, signed by each member of the NIA, delegated authority to the Director of Central Intelligence to control, supervise, and administer the working fund. The full text of that letter is quoted below.

"In our letter of 30 July 1946, we requested that you establish a working fund to assist in carrying out the President's wishes in regard to foreign intelligence activities. We proposed in that letter to authorize the Director of Central Intelligence to direct the administration and fiscal supervision of such a working fund upon its establishment. With approval of the Treasury Department and the Comptroller General, Working Fund, War, General, 1947, has been constituted and has been assigned the symbol number 2175900.

"In order to comply with the Presidential Directive of

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22 January 1946, that the Director of Central Intelligence
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perform such services of common concern as the National Intelligence Authority determines can be more effectively accomplished centrally, we now on behalf of the Departments we represent, and in our capacity as members of the National Intelligence Authority, authorize the Director, subject to policies established by the National Intelligence Authority, to control, supervise and administer this working fund with full powers in respect thereto as would otherwise have been exercised by us over the funds contributed to the working fund by our respective Departments, including the powers and authority granted by the Military Appropriation Act, 1947, and the Naval Appropriation Act, 1947, approved July 8, 1946 (Public Law 492 - 79th Congress), pertaining to certificates of expenditures and determinations of propriety of expenditures.

"The Director of Central Intelligence and his authorized representatives shall arrange with your Departments such procedures, practices and controls as are necessary to meet your requirements, and the Working Fund, War, General, 1947 shall be subject only to the immediate control of the Director in accordance with policies established by the National Intelligence Authority."

d. The creation of a central working fund and the delegations of authority contained in the 5 September 1946 letter gave the Director of Central Intelligence, for the first time, the authorities and resource necessary to obtain the staff and facilities

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required to build the CIG into an operating and administrative entity. Almost simultaneous with the delegations of authority of 5 September 1946, the SSU personnel and facilities began to be transferred to the CIG. Theoretically, the transfer of all the personnel, functions, and facilities of SSU were supposed to be completed as of 20 October 1946. Actually, the accounting and reporting requirements for SSU obligations and funds continued, and it was the summer of 1947 before a clear-cut separation of SSU and CIG accounts and obligations was effected. There is quoted below pertinent extracts [] dated 6 September 1946, which was sent by the then Director of SSU, [] to all overseas SSU Chiefs of stations and missions.

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".....All SSU overseas establishments will be liquidated effective close of business 19 October 1946.....deliver written notices of termination effective 19 October 1946 to all SSU civilian employees.....civilian personnel not.....to be appointed by CIG should be enroute to U. S. by 1 October. Extensions of effective date of termination will be issued by Washington in event arrival in U. S. does not take place on or before 19 October. Military and Naval personnel not transferred to CIG will be disposed of according to existing or other regulations.The use of vouchered funds overseas will be discontinued and all salaries and expenses incurred after 19 October will be paid from "Special Funds.".....All obligations incurred on or after 20 October must be for and on behalf of CIG.

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SSU vouchered obligations incurred prior to that date must be paid from SSU funds by 31 October 1946. Requests for payment after that date on vouchered SSU obligations must be forwarded to Washington for payment.As of COB 19 October new and separate CIG financial books will be opened. All obligations incurred on or after 20 October will be recorded therein. Old SSU unvouchered obligations incurred prior to 20 October will continue to be paid from SSU funds and be recorded in SSU financial records. These two separate sets of books will be maintained indefinitely until all SSU obligations are liquidated and further instructions are issued. Transfer from SSU funds on 19 October, and monthly thereafter until further notice or receipt of adequate CIG funds, sufficient funds of all types to meet estimated operating expenses of following month. Issue compulsory call for accountings through 19 October 1946 on all outstanding advances. As accountings are received through that date, transfer balances to CIG records. Issue SSU financial report as of COB 19 October and two separate reports monthly thereafter at end of calendar month including 31 October."

e. Prior to the time SSU personnel were transferred to CIG, the Budget and Finance functions were performed by a Budget Division (then called Budget and Procedures Division) headed by Edward R. Saunders, consisting of ten to fifteen persons; a Finance Division (then called Special Funds Division) headed by [REDACTED] consisting of twenty-five to thirty persons; and a Fiscal Division

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(then called the Finance Division) headed by [] consisting of thirty-five to forty-five persons. The Chief of each of these three divisions reported separately to the "Executive for Personnel and Administration," who reported to the Executive Director. CIG Administrative Order No. 5, dated 22 July 1946, grouped the three units mentioned above under a single division designated the Finance Division, and the Chief of that Division, Mr. Edward R. Saunders, reported to the Executive Officer, CIG. This organizational arrangement continued until July 1947, when the Special Funds Branch was taken out of the Finance Division and transferred to the Office of Special Operations.

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3. CIG becomes CIA - Internal Reorganization - FY 1948

a. The establishment of the common working fund proved expedient from both an operational and security viewpoint, and it was determined advisable to make similar arrangements for the administration, control and supervision of funds to be made available to the CIG for the Fiscal Year 1948. Accordingly, arrangements were made in liaison with the Bureau of the Budget and budget officials of the Department of State, War, and Navy and with the approval of NIA to distribute funds budgeted for CIG on a ratio of 2-1-1 in the appropriation acts of War Department, State Department and Navy Department respectively. The FY 1948 budget estimate was first presented to and approved by the NIA Budget Review Board consisting of one representative each from the Departments of State, War, and Navy. Later it was justified and defended by members of

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the NIA, the Director of Central Intelligence and his assistants at closed hearing before the Appropriation Committees of the three departments and transferred, with the approval of the General Accounting Office and the Treasury Department, to a central "Working Fund" under the control of the Director of Central Intelligence. In a letter to the Comptroller General of the U. S. dated 1 July 1947, the NIA representatives reaffirmed delegation to the Director of Central Intelligence the powers and authority to control, supervise, and administer the common "working fund."

b. The National Security Act of 1947 (Public Law 253 - 80th Congress) was approved on July 27, 1947. Title I of this Act provided for the establishment of the National Security Council and for the establishment under the National Security Council of a Central Intelligence Agency. This Act provided that:

"the personnel, property, and records of the Central Intelligence Group are transferred to the Central Intelligence Agency, and such Group shall cease to exist. Any unexpended balances of appropriations, allocations, or other funds available or authorized to be made available for such Group shall be available and shall be authorized to be made available in like manner for expenditure by the Agency."

This Act was the first statutory recognition of the Central Intelligence activity. Its effect from a budget and finance point of view was to give legislative sanction to the financial

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arrangements which had already been established and placed into effect by virtue of authorities previously delegated to the Director of Central Intelligence by the President and by the Secretaries of State, War, and Navy and the NIA.

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c. In July of 1947, a general internal reorganization occurred at which time the Special Funds Division, headed by [REDACTED] was transferred to the Office of Special Operations; the "Procedures" functions were transferred to a newly created Management Branch. A Budget and Finance Branch, headed by Mr. Edward R. Saunders, was created under the Executive for Administration and Management. This branch consisted of a Budget Division, headed by [REDACTED] a Fiscal Division, headed by [REDACTED] and a Special Services Division, headed by [REDACTED]. The transfer of the Special Funds Division to OSO was based upon the premise that that office must have complete control and jurisdiction over all administrative service elements necessary for its support. However, there was a fundamental cleavage of opinion on this point within the Agency. The above organizational alignment continued in effect until the fall of 1948.

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4. Fiscal Year 1949

a. When the budget estimates for fiscal year 1949 were submitted, it was stated that the Director planned to conduct the operations on substantially the same basis and with the same functions and activities that CIG operations had been conducted during fiscal year 1948, except it was anticipated that recruitments of qualified personnel planned but not made in 1948 would be recruited in 1949.

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b. By General Order No. 11, dated 14 September 1948, there was created a Budget Office headed by Mr. Edward R. Saunders and reporting to the Executive for Administration. The functions and personnel of the Special Funds Division, OSO, were, in accordance with this Order, transferred to this Budget Office; and there was created under the Budget Office a Covert Branch headed by [REDACTED]

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[REDACTED] an Overt Branch headed by [REDACTED] The functions of this Budget Office were described as follows:

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1. In coordination with the Management Officer and in continual consultation with CIA activities, constantly ascertains and develops annual budget requirements throughout each year.
2. Prepares annual budget and handles all CIA budget matters with Bureau of the Budget and other Agencies.
3. Furnishes accounting and fiscal support to CIA.
4. Coordinates with Management Officer in establishment of personnel ceilings.
5. Interprets rules, regulations and procedures of the General Accounting Office, Treasury Department, and Bureau of the Budget as need arises in the administration of CIA.
6. Obtains and maintains for operational and intelligence information needs, information relative to world monetary rates and exchanges.

This order specifically provided for an overt and covert branch in each administrative office and stipulated that where practical the

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administrative elements providing covert support would be physically located in close proximity to the operating offices being served. The approximate total strength of the Budget Office during this period was 95 to 105 persons.

c. In a letter to the Comptroller General, dated 1 July 1948, the members of the National Security Council requested that the Director of Central Intelligence continue to have the same authorities and control of the common "working fund" as he had exercised during fiscal year 1947 and fiscal year 1948. This delegation was necessary in view of the fact that, although Section 102 of the National Security Act of 1947 had given statutory recognition to CIA, no enabling legislation had as yet been enacted authorizing the Director to acquire or administer Agency assets or funds in his own right. However, on 20 June 1949, Public Law 110, 81st Congress, was approved "to provide for the administration of the Central Intelligence Agency, established pursuant to Section 102, National Security Act of 1947, and for other purposes." The enactment of this legislation gave CIA a budgetary and fiscal stability which had hitherto been lacking. Prior to the passage of P. L. 110, the lack of specific enabling legislation had necessitated that the Director depend upon delegations from the Secretary of State, War, and Navy and verbal and somewhat tenuous understandings with GAO and the Congress and other Government agencies as to the purposes for which available funds could legally and properly be expended. Section 10 of Public Law 110 gave to the Director of Central Intelligence extraordinary discretionary powers with respect to certain types of

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expenditures. This legislation provided specifically that "the sums made available to the Agency may be expended without regard to the provisions of law and regulations relating to the expenditure of Government funds; and for objects of a confidential, extraordinary, or emergency nature, such expenditures to be accounted for solely on the certificate of the Director and every such certificate shall be deemed a sufficient voucher for the amount therein certified." It is obvious that a grant of such broad powers places responsibility upon the Director to establish within the Agency itself internal restraints and controls and to promulgate regulations containing limitations with respect to the exercise of such powers. The Confidential Funds Regulations are designed to accomplish that purpose.

d. The Office of Policy Coordination was established by CIA General Order No. 10, dated 27 August 1948, pursuant to special authority contained in a National Security Council Directive dated 18 June 1948. The creation of this office was to have a significant and far-reaching effect upon the budget and fiscal as well as other administrative support activities of the Agency. However, immediately following its activation, OPC was engaged primarily in planning activities; and the budget impact and logistic and financial support requirements of that office did not make themselves felt until much later. In retrospect, it appears clear that too little attention was given during this period to the establishment of adequate financial and administrative support staffs which would later be required to implement the broad programs planned by OPC.

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5. Fiscal Year 1950

a. There was an approximate twenty-five per cent increase in volume of expenditures for fiscal year 1950 over fiscal year 1949. However, most of this growth represented cost of increased staffing for Headquarters and planning activities. It wasn't until the latter part of this fiscal year that OPC began to activate large scale projects and programs. It was at this time that the lack of adequate financial staff necessary to handle the complex financial support requirements of OPC operations began to make itself felt.

b. Effective as of 1 October 1949, as evidenced by CIA General Order No. 24 dated 20 September 1949, the CIA underwent another major internal reorganization. This resulted in the administrative support functions of the Agency being split up into an Overt Support Staff and a Covert Support Staff with three auxiliary staffs for Management, Budget, and Personnel, all reporting to the Executive Director. The effect with respect to the budget and financial functions was that the Budget function, headed by Mr. Edward R. Saunders, was made an auxiliary staff function reporting to the Executive Director. The Fiscal Division (Overt), headed by [] was placed under the Chief, Overt Support Staff; and the Finance Division (Covert), headed by [] was placed under the Chief, Covert Support Staff. This organizational alignment continued until the fall of 1950.

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6. Fiscal Year 1951

a. The expenditures of the Agency jumped from [redacted] dollars in FY 1950 to [redacted] dollars in FY 1951. The bulk of the increase was occasioned by increased personnel staffing in all parts of the Agency and the activation of OPC and [redacted] projects on an ever-increasing scale. In addition to the increase in volume of disbursements, many of the new projects and programs undertaken involved the development of new principles and techniques of financial support. The Budget and Finance Office was thus faced

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with the complex problem of (1) meeting day-to-day requirements of an expanding program, (2) installation of new and mechanized accounting systems, (3) broadening the scope and improving the techniques employed in budgetary and monetary activities, and (4) establishing a program of contract audits, and site audits and inspections, and recruiting and training staffs of finance officers to accomplish the above at field and headquarters installations. (A fuller statement of our concept of this task and an outline of certain positive accomplishments in connection therewith is set forth in the attached Progress Report from the Comptroller to the DD/A dated 6 November 1951.)

b. Effective as of 1 December 1950, as evidenced by CIA Regulation

25X1 [] the Agency underwent another major reorganization. This resulted in all budgetary and financial operations of the Agency, including all the personnel and functions of the Budget Division, Fiscal Division, Finance Division, and the Coordinating and Contracting Unit, being placed under a Finance Office headed by a Comptroller, Mr. E. R. Saunders; the Comptroller reporting directly to the Deputy Director for Administration. At the time this occurred, the total persons engaged in budget and finance work in the Agency was 134. Recruitment of additional staff was pushed as rapidly as possible in an effort to meet the increasing demands for financial support and services. The Comptroller's functions as established by CIA Regulation [] was as follows:

25X1 The Comptroller is in charge of all financial operations of the Agency. He shall:

A. Develop, prepare and execute the Agency budget and finance programs and furnish advice and assistance

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to Agency officials in all matters of finance and budget policy.

- B. Assist in the establishment of Agency fiscal and budget policies and establish procedures for their implementation.
- C. Supervise the operation of all budget and all financial programs of the Agency.
- D. Supervise all liaison with other agencies in connection with budget and finance matters.
- E. Assist the Director in presentation of the Agency annual budget estimates to the Bureau of the Budget and the Congress.
- F. Provide budget and fiscal services for the National Security Council.
- G. Establish necessary fiscal accounting for property and equipment.

7. First Half of Fiscal Year 1952

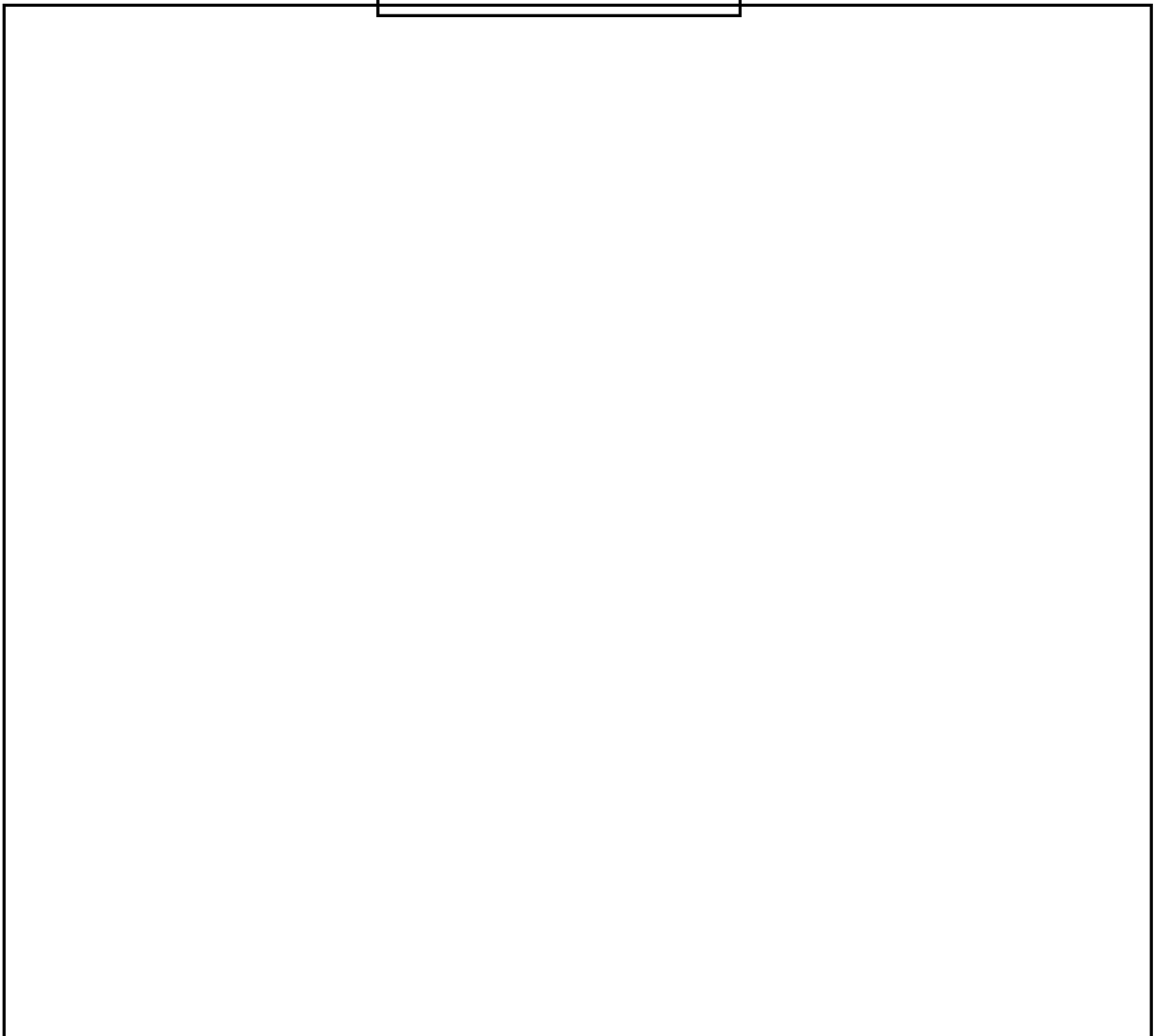
a. The rate of expenditures during the first half of this fiscal year were approximately double the rate of expenditures for the fiscal year 1951. The recruitment and training of additional staff to handle budget and finance activities continued with special emphasis on the training and dispatch of finance officers to major overseas installations. By January 1952, the number of persons engaged in budget and finance work under the direction of the Comptroller had increased to 214.

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c. Efforts were continued in connection with strengthening and broadening the facilities for the audit of contracts, audits of proprietary projects, and audit of field accounts and activities. Plans were made for a more extensive use of IBM and other machines in payroll and accounting activities, and for the development of procedures designed to gain better control of obligation of Agency funds. Special efforts were also made during this period to broaden the base of our monetary and disbursing activities and develop improved security and control techniques.

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